Smart Growth Credit - can be eligible as an offset

The simplest form of integrating avoided conversion strategies into an offset program of a cap and trade system is a landowner surrendering development rights and in return a landowner could receive offsets for trading in a cap and trade system. While simple, this approach has three challenges in meeting the WCI design principles:

- This approach would require a presumption that the land would be developed which is difficult to do given the wide range of landowner goals.
- Such a program could run the risk of attracting primarily landowners that had a low probability of converting. While there are tools that could establish a risk of conversion, the assumptions inherent in such a process begin to make this subject to criticism of the systems integrity in offsetting emissions.
- Such an approach also has difficulty addressing leakage. Assuming that housing demands remain constant, avoiding conversion in one area can simply push the development elsewhere, neutralizing the value of the offset.

Within the context of an offset program, avoided conversion offsets can be designed to meet WCI's design principles if the credit is issued not to avoid conversion entirely, but when conversion strategies that lessen the loss of carbon on the landscape are employed during a conversion activity.

For example, rather than developing 200 acres into 20 ten acre blocks, a developer would cluster 20 one acre blocks, and leave the other 180 acres without the ability to be developed. [1] This cluster concept is similar to the Rural Villages concept and has been suggested as a possible offset in the RGGI program. Listed below are potential definitions for WCI design principles for a Smart Development carbon credit.

- Baseline - The projected average standing carbon inventory after legal development as determined by the project developer or utilizing a standard default for the forest-type and region (based on FIA data).

- Additionality – The difference between the actual standing carbon inventory after the proposed development and the projected average standing carbon inventory after the legal development.

- Leakage - The same number of housing units must be provided in the alternative development strategy as was provided in the legal development scenario.

- Permanence – Permanence can be achieved by requiring the offset provider to hold Transfer of Development Rights (TDR) to ensure the land receiving offset credits remains undeveloped.
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[1] These numbers are for illustrative purposes only.

Comment [jc1]: Aren't there criteria we could lay out that would establish those lands most at risk of conversion?

Comment [a2]: FROM CLC: We should flag the idea of criteria for risk of conversion - so long as not narrowly defined - for example right now limited info on conversion or econ trends and bang for buck and viability leads to mid-level conversion risk preference from clcs perspective. I think clusters shld be allowed at any time on site, tdr into cities or cv tdrs could be from "at risk eligible" lands - this criteria should be managed by a real time stakeholder group

Comment [a3]: I also thought about the idea of risk of conversion being a criterion for additionality for a program that avoided conversion entirely. Do we need that criterion if the offset program is applied at the point when a landowner has decided to convert?

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Comment [jc4]: I think there will be a lot of work to do on how to determine the appropriate baseline. Not including a lot of detail in this draft is fine with me, but we should at least recognize in the draft that it will be an ongoing discussion.

Comment [a5]: I think that if TDRs have value that is distinct from the carbon offset value, then a level of permanence requiring a permanent surrender of development rights would have stronger appeal to a forest landowner since we are beginning to leverage two distinct ecosystem service values.

That being said, permanence is the most difficult issue for landowners to grapple with. I agree that a temporary credit may not be as attractive to some emitters. However, I would argue that we allow them in the market place, at least initially, to test that assumption. I do see a value in temporary credits being used by ... [1]

Comment [a6]: FROM CLC Conservation easement permanently protecting forest and allowing transfer of density (TDR or cluster) is essential from my perspective

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<#>Contractual – A landowner enters into a binding agreement to meet the commitments meriting credits which include; contracts, covenants (such ... [3]

Assumptions:

- Conversion not covered under the cap.
- Offset credits will be subject to an appropriate discount rate that reflects the risks of the emissions reductions of the project.
- Focused on areas outside the urban growth boundaries.
- Relationship to TDRs???

Comment [a7]: There was discussion regarding if a landowner would be required to mitigate for the smaller conversion footprint with some of the credits issued for making the land use change. After giving this some more thought I believe that we need to treat this like any other "emitting" entity that falls under the cap. If a emitter outside the cap reduces their emissions (and meets WCI criteria) the resulting reduction would be allowed as an offset. There is no presumed requirement for them to use that offset to mitigate for their remaining emissions before they can sell the remainder.

Comment [a8]: Are we making a criteria to enter into the offset market?

Comment [a9]: I think we want to keep TDRs as a separate "currency" from carbon. The value of a TDR could be a tool to help landowner's get over the permanence hump in terms of participation. Separating these from carbon offsets also maintains the ability to utilize TDRs as a separate policy vehicle that has a benefit to maintaining working forests outside of the explicit carbon context.

Page 1: [1] Comment [a5] **adrianm** **6/17/2008 2:35:00 PM**

I think that if TDRs have value that is distinct from the carbon offset value, then a level of permanence requiring a permanent surrender of development rights would have stronger appeal to a forest landowner since we are beginning to leverage two distinct ecosystem service values.

That being said, permanence is the most difficult issue for landowners to grapple with. I agree that a temporary credit may not be as attractive to some emitters. However, I would argue that we allow them in the market place, at least initially, to test that assumption. I do see a value in temporary credits being used by an emitter to "buy time" to make on site emission reductions. The presumption is that these credits are cheaper due to their temporal limitations (thus attractive to some emitters) and would effectively be replaced by on site emission reductions after they expire. Each emitter will need to have a carbon management strategy and I think that especially in the initial stages, more options are better until the market begins to define itself.

Page 1: [2] Deleted **Jessica Coven** **6/17/2008 11:37:00 AM**

and legal experts should be consulted to define all the options available, as more flexibility will increase the value of avoided conversion credits and therefore lead to more use. Permanence could be achieved through three potential mechanisms:

Page 1: [3] Deleted **Jessica Coven** **6/17/2008 11:37:00 AM**

Contractual – A landowner enters into a binding agreement to meet the commitments meriting credits which include; contracts, covenants (such as those to protect views in residential neighborhoods), and easements.

Assurances – These could include; financial assurances, purchased insurance, and liens against the property.

Termination clauses - Require a landowner to compensate for lost benefits, through payment or purchase of other offsets or allowances.